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BUSINESS OUTLOOK

for West Michigan



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BUSINESS OUTLOOK

for West Michigan

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The Skilled Labor Shortage Question

by George A. Erickcek

Why are so many manufacturers complaining about a shortage of qualified, skilled production workers when thousands of experienced production workers are unemployed and looking for work? This is not an easy question to answer. What is clear is that available data do not provide much evidence that a real shortage of qualified industrial workers exists. From December 2007, the start of the recession, to September 2012, 83,000 production jobs in Michigan were lost (Figure 1). Moreover, from 2007 to 2011, real wages for production workers were on the decline.

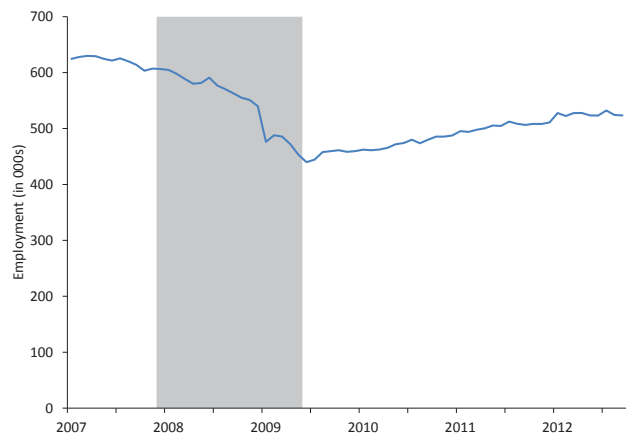
Shortages typically occur when there is a significant change in demand or supply, or both, and when that change is accompanied by either a jump in prices or, if the good is regulated, long lines. None of these factors has occurred in the Michigan labor market for production workers, as is shown in the following bullet points.

- Demand.** Since the end of the recession in June 2009, manufacturers have added 70,000 workers, an impressive 16 percent increase in the total number of workers employed in industry. However, 153,000 manufacturing workers were laid off during the recession, meaning that manufacturers will have to hire 83,000 more workers before they reach prerecession levels.
- Supply.** The supply of workers could have declined for three reasons: 1) because of retirements, 2) because workers gave up on their job searches, or 3) because persons moved out of the state. We have examined all three factors, and all of them appear to be insignificant. First, an excessive number of retirements does not appear to be a concern at this time, as the number of young production workers—persons who are between 25 and 34 years of age—is greater than the number of workers who are between 55 and 64 years of age, although the question remains as to whether these younger workers have the right skills. Second, the percentage of individuals remaining in the workforce who identify themselves as production workers, either employed or unemployed, held constant from 2007 to 2011. This shows that the vast majority of workers did not give up looking for employment. And third, net migration of production workers from 2007 to 2011 accounts for only 0.1 percent of the workforce.
- Wages.** As shown in Figure 2, real earnings of production workers have been declining, regardless of the level of pay being received by the worker. Assuming that the level of earnings is associated with the level of skills of the workers, you would expect wages in the upper categories to rise if there was a skills shortage, but, again, this is not the case.

In short, the standard indicators that would suggest a labor shortage are not present.

So what is happening? I would suggest that two characteristics of the current economy are generating this disconnect. First, businesses are facing uncertain demand and therefore can afford to be picky and patient about their hiring decisions. The strong use of temporary workers indicates that many manufacturers may be taking this wait-and-see option.

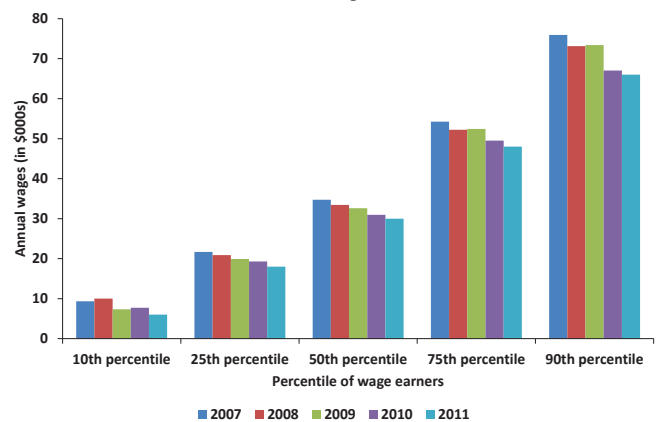
Figure 1 Manufacturing Employment in Michigan, 2007–2012



SOURCE: BLS (current employment statistics); NBER (recession dates).

Second, many businesses know that the labor market is soft, so there is an incentive for them to wait for the possibility that a better candidate will apply who would be willing to accept a starting wage offer. In other words, there are job vacancies and there are job seekers; however, the lackluster economy is not generating an urge for action to rectify this situation.

Figure 2 Decline in Real Wages for Production Workers in Michigan

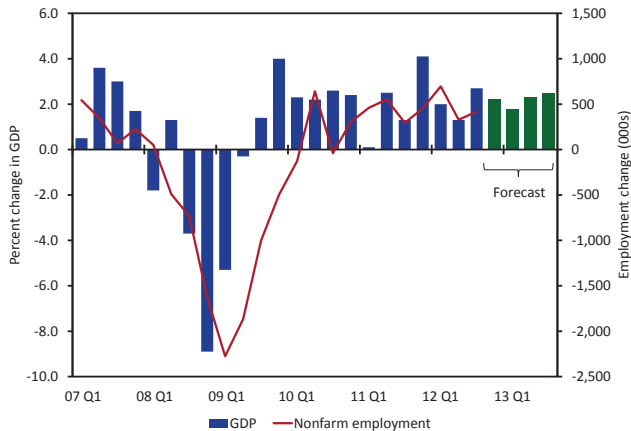


SOURCE: Steven Ruggles, J. Trent Alexander, Katie Genadek, Ronald Goeken, Matthew B. Schroeder, and Matthew Sobek, Integrated Public Use Microdata Series: Version 5.0 [machine-readable database] (Minneapolis: University of Minnesota, 2010).

The National Economy Continues to Grow at a Moderate Rate

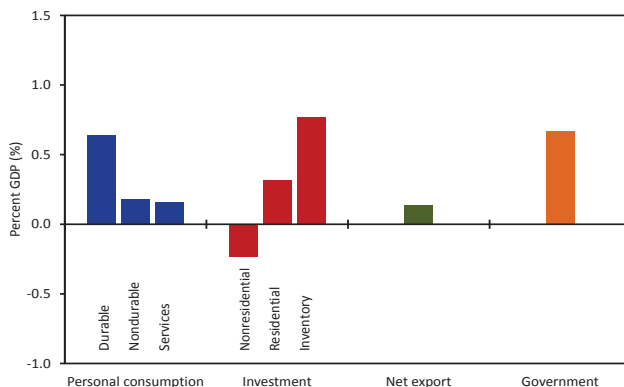
The nation's Gross Domestic Product (GDP) grew at a 2.7 percent annual rate during the third quarter—an improvement over the previous quarter's anemic growth rate of 1.3 percent (Figure 1).

Figure 1 Gross Domestic Product and Nonfarm Employment



- The quarter's pickup in output growth was sufficient to push employment up by 417,000 jobs. Another 171,000 jobs were created in October. The October reading of the ISM Purchasing Managers Index indicated that the nation's manufacturing sector is out of its summer doldrums, as it reached above 50 for the second month in a row. A reading of 50 or higher for this carefully watched index of manufacturing health is associated with output growth.
- Most economists predict the economy will continue to grow between 1.8 and 2.5 percent during the coming year. The University of Michigan forecasts that GDP will increase by only 2.0 percent in 2013 (Figure 2).
- Still, analysts worry that economic activity could slow in the fourth quarter and in the first quarter of next year if the fiscal stalemate in Washington is not resolved.

Figure 2 Major Activity Contribution to GDP Change in Current Quarter



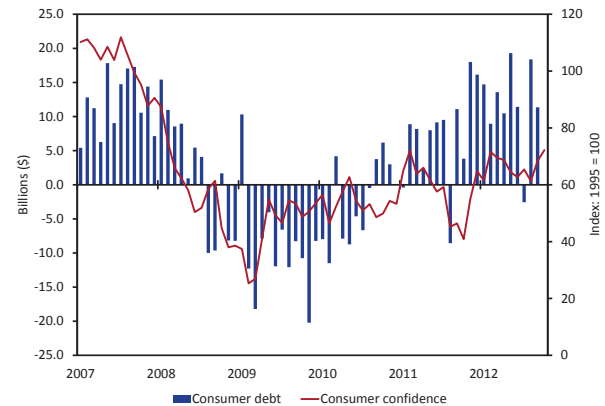
Consumer spending, a strong increase in inventories, and a jump in defense spending pushed the economy forward during the third quarter. Consumer spending increased at

a modest 1.4 percent annualized rate and contributed 0.99 percentage points to the quarter's growth.

- A one-time jump in military spending contributed 0.64 of a percentage point to the quarter's growth.
- Residential construction grew at a 14.4 percent annual rate, which, observers hope, is an indication that the sector is on the road to recovery.
- A large increase in inventories contributed 0.77 of a percentage point to the quarter's growth.

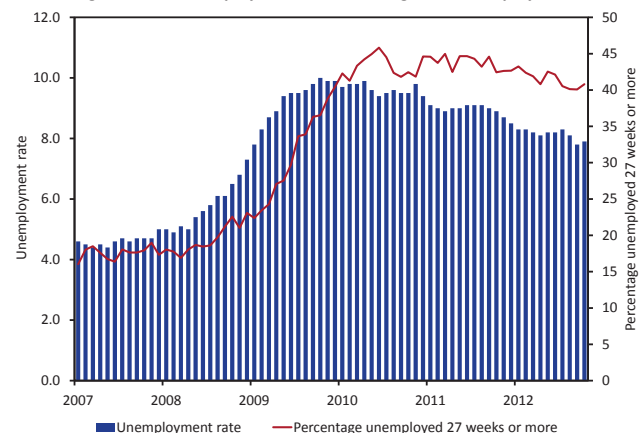
Consumer confidence is on the rise, and consumer debt has been trending upward as well (Figure 3).

Figure 3 Consumer Confidence and Change in Consumer Debt



- The Conference Board's Consumer Confidence Index climbed to 72.2, which is its highest reading in nearly 20 months; however, it is still below its 2007 postings.
- Still, consumer debt has returned to prerecession levels. In the third quarter consumer credit rose at a seasonally adjusted annual rate of 4.0 percent. Some analysts believe that homeowners are feeling more secure as housing prices have started to rise (see below).
- Retail trade sales have fallen by 0.3 percent since September but are still 3.8 percent above last year's levels.

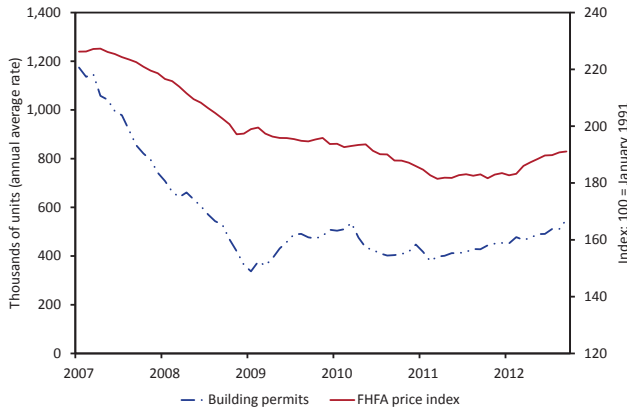
Figure 4 U.S. Unemployment Rate and Long-Term Unemployment



Consumer confidence may be on the rise because of recent employment gains. However, the national unemployment rate remains just below 8.0 percent, and more than 40 percent of all unemployed workers have been unemployed for six months or longer (see Figure 4, bottom of previous page).

Many analysts fear that the nation's unemployment rate will remain high even as the number of hires grows, because discouraged workers will come back into the workforce.

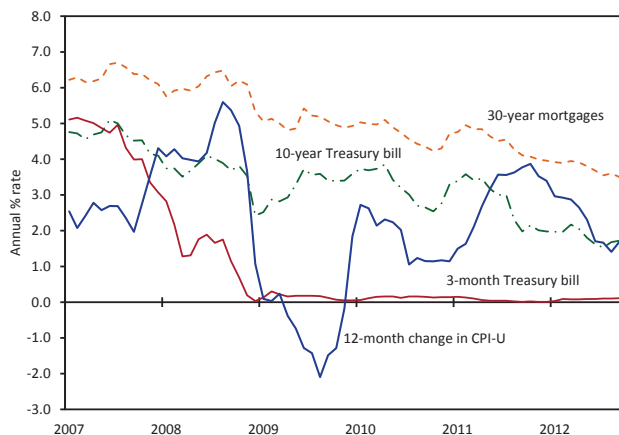
Figure 5 Single-Family Building Permits and Index of Existing Home Prices



There are increasing signs that the nation's housing market is starting to stir from its long slumber (Figure 5).

- Building permits are at their highest level in 30 months.
- Sales of existing homes in October were up 2.1 percent from the previous month and up 11 percent from last October. In August the FHFA home sales price index rose by 0.7 percent.
- RealtyTrac reports that in the third quarter, housing foreclosures inched up less than 1.0 percent from the previous quarter and are down 34 percent from the third quarter of last year.

Figure 6 Interest Rates and Inflation



The revitalization of the nation's housing market is being pushed by extremely low mortgage rates. In November, mortgage rates dropped to 3.34 percent, making today's rates the lowest in more than 40 years.

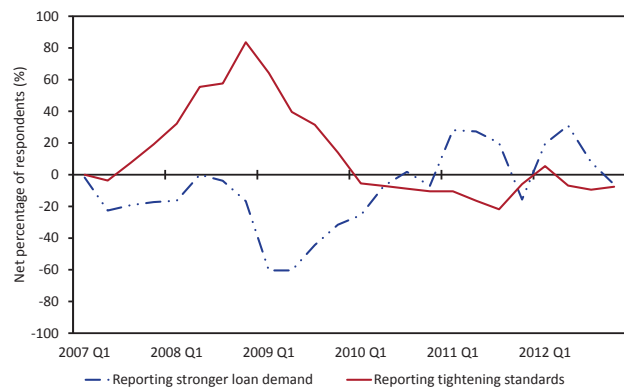
- It is likely that interest rates will remain low. The Federal Reserve has made it clear that it will maintain its easy

money policies until there is substantial improvement in the nation's labor markets (Figure 6).

- The Fed extended to mid-2015 its plans to keep short-term interest rates at "exceptionally low levels." As of November, the interest rate on 90-day Treasuries stood at a near-zero 0.08 percent.
- Consumer prices are holding steady. Consumer prices have increased only 2.0 percent in October from the same time last year.

Despite low interest rates and lower loan standards, business loan activity slowed further during the third quarter. Senior loan officers surveyed by the Federal Reserve reported a decrease in loan demand from the previous quarter (Fig. 7).

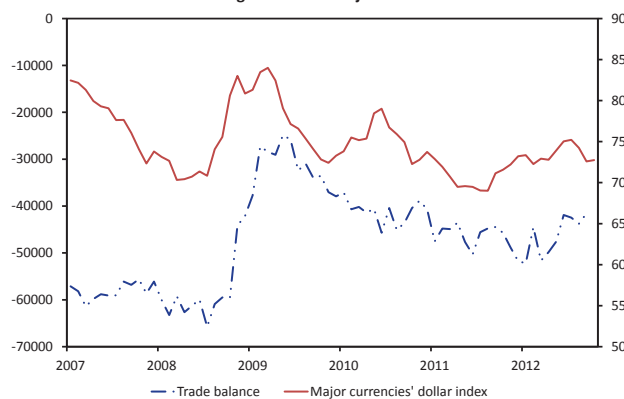
Figure 7 Federal Reserve Senior Loan Officers Survey: Demand and Lending Standards for Commercial and Industrial Loans by Medium-to-Large Firms



The nation's exports rose at a 1.1 percent annualized rate, which is surprising given the slowing world economy. Imports also inched up by a modest 0.1 percent (Figure 8).

- During the third quarter, the 17-country Eurozone suffered a 0.1 percent annualized decline in output, following a 0.2 percent decrease during the second quarter. Economic output in Japan fell at a 3.5 percent annualized rate during the third quarter.
- Given the economic slowdown in the other developed countries, it is not surprising to see the value of the dollar holding steady despite uncertainty over the ongoing fiscal showdown in Washington.

Figure 8 U.S. Trade Balance and Nominal Index of the Value of the Dollar against Seven Major Currencies



REGIONAL INDUSTRY OUTLOOK

According to the economic analysts who prepared the most recent Beige Book at the Chicago Federal Reserve, economic activity in the Great Lakes region grew, but at a modest pace, in August and early September. Contacted manufacturers mentioned slowing conditions—new orders and backlogs have deteriorated. However, the region's auto industry remains active, and building material manufacturers report stronger sales because of a reawakening housing industry. Homebuilders who were contacted confirmed this, reporting improved conditions.

Business representatives who were interviewed echoed the same concerns as those mentioned in the national overview. The surveyed region's exporters reported that international markets have softened. Surveyed bankers reported ongoing weakness in the demand for business loans, even though they have loosened their standards for commercial and industrial loans. Several business contacts said that they were holding up on investment and hiring decisions until the fiscal impasse in Washington, D.C., is resolved. Retailers reported that consumer spending remained unchanged and that they were lowering their expectations for the holiday season.

As highlighted in the Viewpoint, contacted employers identified tighter labor markets in specific occupations in health care, engineering, accounting, information technology, and skilled manufacturing trades.

In September, the Chicago Fed Midwest Manufacturing Index (CFMMI), which tracks four major manufacturing clusters in the Midwest, was 8.5 percent higher than its mark of a year ago, which was more than double the national increase of 3.5 percent. As shown in the accompanying table, both machinery and steel production in the region were up 8.1 percent during the past year. Auto production shot up by 16.4 percent in the region from a year ago, while the resources sector, which includes the food, wood, paper, chemicals, and nonmetallic mineral subsectors, increased by only 2.6 percent. All of the region's indexes surpassed their national counterparts.

Chicago Fed Manufacturing Index

Industry	% change, Sept. to Sept.	
	Midwest	U.S.
Regional overall	8.5	3.5
Machinery	8.1	3.7
Steel	8.1	5.5
Auto	16.4	9.4
Resource sector ^a	2.6	1.2

^aIncludes food, wood, chemicals, paper, and nonmetallic substances.

SOURCE: Chicago Fed Midwest Manufacturing Index (CFMMI).

OFFICE FURNITURE INDUSTRY UPDATE

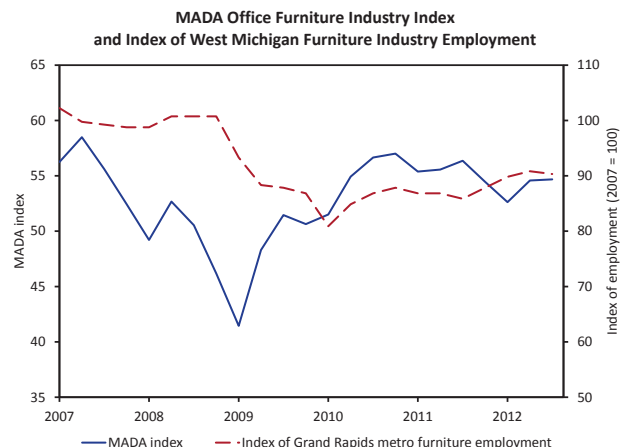
Industry Forecasts Scaled Back for Smaller Growth

In September, the Business and Institutional Furniture Manufacturer's Association (BIFMA) revised downward its production and sales forecasts for this year and 2013. BIFMA is now forecasting that production will increase by 1.1 percent in 2012, which is lower than its previous forecast of 3.4 percent. Furniture consumption in the United States is expected to increase by 2.9 percent to \$11.5 billion during the year. This is in line with the 2.5 percent increase in national employment in financial activities and professional and business services—sectors that are heavy users of office furniture—during the first nine months of the year compared to the same period last year.

For 2013, BIFMA lowered its production forecast from a robust 6.7 percent to a more modest 2.9 percent growth. The association is forecasting that consumption will grow by 3.6 percent during next year. The revised national forecast reflects the current conditions in the industry in the greater Grand Rapids region. Office furniture employment in the Grand Rapids–Wyoming MSA stabilized during the past three quarters.

In addition, the recently released Michael A. Dunlap and Associates (MADA) Office Furniture Index held steady in the third quarter, rising by only 0.2 percent from the

second quarter. During the past four quarters, the index has declined by 3.0 percent. Nevertheless, the index remains above the 50 mark, indicating that the industry is still expanding. A breakdown of the components of the overall index reveals that the index readings for gross shipments, order backlogs, and employment have all slipped by 2.0 percent or more during the past four quarters. However, all of the indexes still remain well above 50. In short, the MADA survey confirms BIFMA's revised forecast that the industry will continue to grow but at a slower rate.



AUTO INDUSTRY UPDATE

Sandy Causes an October Hiccup, but Market Conditions Hold Strong

Auto sales were growing at a sustainable rate until October, when tropical storm Sandy shut down the dealerships in the northeast, pushing car and light truck sales down to a 14.2-million-unit pace during the month. Before the storm, car and light truck sales had accelerated from a 13.9-million-annual rate in January to a 14.9-million-unit annualized pace in August.

Market conditions are set for sales to resume their former pace in the coming months. The average age of the vehicles on the road is now 11 years, the oldest on record. As well, used car prices have reached very high levels. Thus, not only are trade-in values good, but the price spread between a used car and a new one has shrunk.

In addition, interest rates are very low and credit is available. Equifax, a consumer credit reporting agency, reported in September that auto lending had jumped nearly 14 percent during the past year. According to the agency's report, during the first half of the year more car loans were taken out than at any time since 2007—before the recession. In July, according to Comerica Bank's Auto Affordability Index, the purchase and financing of an average-priced new vehicle took 22.9 weeks of the median family income, which was down slightly. Finally, if the housing industry continues to improve as forecast, it will also generate an increase in the demand for light trucks.

Asia, Europe Gaining Ground on Detroit Three

The Detroit Three's share of the market is slipping. During the first 10 months of this year, Ford, Chrysler, and GM's share dropped to 44.8 percent, compared to 47.1 percent during the same period last year. Only Chrysler gained share, climbing from 10.6 percent to 11.5 percent during the period. Ford's share dropped from 16.6 percent to 15.3 percent, while GM's share fell from 19.9 percent to 18.1 percent. Meanwhile, the Japanese firms have recovered from last year's earthquake and tsunami; Asian car companies' share rose from 43.9 percent to 45.9 percent, with Toyota's share climbing from 12.6 percent to 14.4 percent. Finally, the Europeans are also grabbing a bigger portion of the U.S. market, as the share captured by European carmakers climbed from 9.0 percent to 9.3 percent.

The Outlook Appears Promising

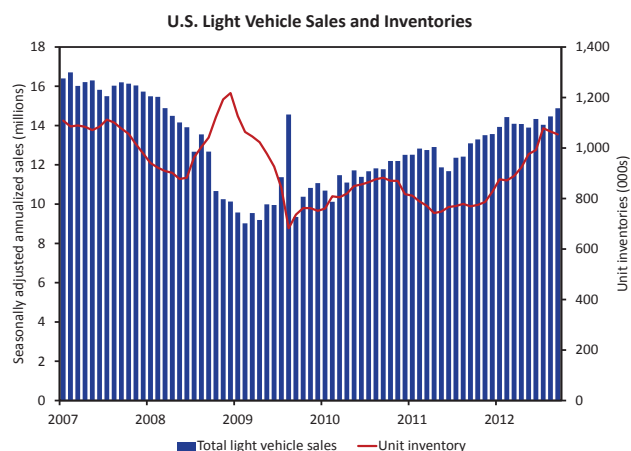
The Center for Automotive Research (CAR) is forecasting that car and light truck sales will reach a sales volume of 14.9 million units in 2013, up from 14.3 million this year. Moreover, the center is predicting sales will hit 15.2 million units in 2014. More importantly, CAR is

forecasting that U.S. production of cars and light trucks will finally reach prerecession levels in 2014. In 2007, 10.8 million vehicles were assembled in the United States. For 2012, CAR estimates that 9.7 million will have been assembled domestically by year's end, and it predicts that this number will rise to 10.6 million in 2013 and 10.8 million in 2014. In fact, the one roadblock that may be facing the industry is the lack of capacity. CAR predicts that GM and Chrysler may run out of truck production capacity by 2015.

One reason for the positive sales forecast is that the Detroit Three are already as productive as their foreign competitors, and their current labor agreement with the United Auto Workers has made them cost-competitive as well. Again according to CAR, in 2015 the hourly labor costs at Chrysler will be below that of Toyota, \$55 to \$58, respectively. General Motor's average hourly labor costs will be \$60 and Ford's \$62. In fact, the average profit per vehicle for the Detroit Three is \$2,244, compared to only \$1,422 for Toyota and Honda, according to CAR.

Auto Suppliers Are Facing Other Challenges

While U.S. sales look promising, the major auto suppliers are burdened by the lack of growth in foreign markets, especially Europe. According to analysts at IRN Inc., a worry facing many suppliers is the worsening market conditions in Europe. Several of the major suppliers in west Michigan have European facilities, including Shape Corporation, which has a plant in Pilsen, Czech Republic; Pridgeon and Clay Corporation, which has a plant in Pyskowice, Poland; and Magna Donnelly, which has plants in Spain, Germany, Austria, Slovakia, and Russia. Moreover, for many of the state's suppliers, the European market accounts for a large share of the business. Again according to IRN, in 2011, 45 percent of the upper-end mirrors and electronics made by Gentex in Zeeland were shipped to Europe.



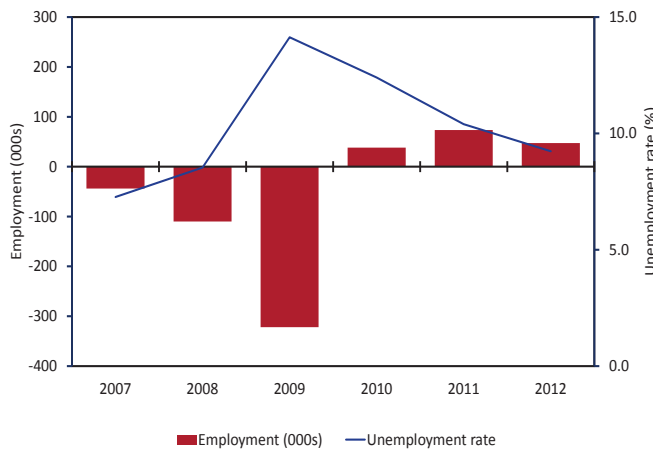
STATE OF MICHIGAN ECONOMY

Employment Growth Inches Forward during the Third Quarter

During the third quarter, only a net of 7,000 jobs were created in the state, a small 0.2 percent increase. The state's auto-driven manufacturing sector and a reawakened construction sector powered the quarter's modest growth. Employment remained unchanged in the private service-providing sector. The state's unemployment rate shot up to 9.2 percent during the quarter as the number of unemployed workers climbed by 8.7 percent. The statewide economic indicators were positive during the quarter, suggesting that employment conditions may improve in the coming months.

Employment in the state's goods-producing sector increased by a healthy 0.6 percent during the third quarter, a gain of more than 3,700 jobs. Construction firms added 1,700 workers, and manufacturers hired another 2,000.

Michigan Employment Change and Unemployment Rate
(3rd quarter to 3rd quarter, seasonally adjusted)

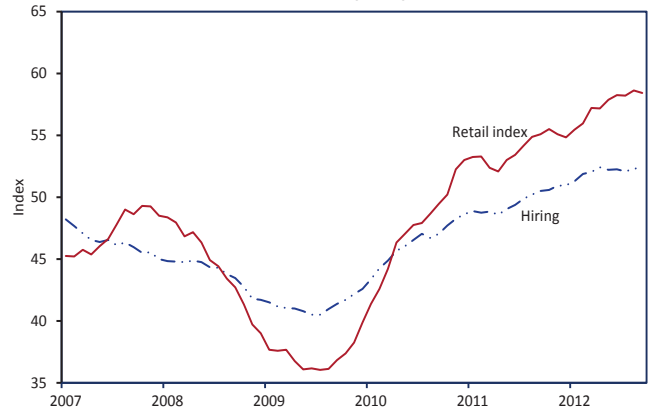


The quarter's increase in construction jobs is but one indication that the state's housing market is finally showing some life. The number of new dwelling units put under contract for construction rose by 6.2 percent during the quarter. Moreover, the Michigan Association of Realtors (MAR) reported that in October the number of single-family homes sold increased by 22.6 percent from a year ago. The average sale price for a home sold this October, \$114,757, was 2.7 percent greater than last October's price, as well.

During the past four quarters, the state's manufacturers have increased their workforce by 3.5 percent, an increase of 17,600 jobs. Numerous studies have estimated the size of manufacturing's indirect impact on the state's economy. For example, the University of Michigan once estimated that, on average, one auto assembly job generated another 4.5 jobs in the state because of the industry's extensive supplier base. For state manufacturers to be able to take responsibility for the state's entire job growth of 47,850 jobs gained during the past four quarters, it would only require that every new manufacturing job generated another 1.7 jobs. Most analysts would agree that such a multiplier effect is reasonable.

Of the Detroit Three, sales at Chrysler have been the most robust during the past year: the auto company's share of the market climbed from 10.6 percent to 11.5 percent. Moreover, Chrysler announced that it would add 1,250 new jobs at three of its Michigan plants.

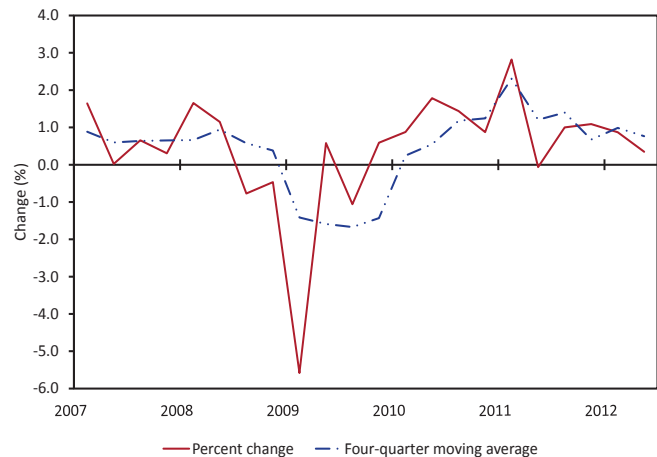
Retail Activity in Michigan
(12-month moving average)



NOTE: Index = percentage reporting an increase in sales + [0.5 x (% reporting no change)].

Employment in the state's private service-providing sector remained flat during the quarter. The state's financial services and its information sector added over 3,000 jobs during the quarter; however, professional and business service providers cut more than 2,500 jobs at the same time.

Michigan Personal Income Growth



Retailers trimmed their workforce by 0.2 percent in the quarter, a loss of 700 jobs. According to the monthly survey of state retailers prepared by the Michigan Retailers Association (MRA) and the Federal Reserve Bank of Chicago, September was a disappointing month. The survey-based September index of retail activity fell from 63.5 in August to 52.5, and it is below its reading of 55.0 a year ago. However, looking forward to the holiday season, nearly 60 percent of the state retailers expect sales from October to December to be better than they were the previous year.

Michigan Statistics (seasonally adjusted)

Measure	2012 Q3	2012 Q2	% change, Q2 to Q3	2011 Q3	% change, Q3 to Q3
Employment (by place of work)					
Total nonfarm employment	3,992,050	3,985,050	0.2	3,944,200	1.2
Goods-producing	654,580	650,840	0.6	642,170	1.9
Natural resources and mining	7,470	7,400	0.9	7,470	0.0
Construction	120,470	118,770	1.4	125,700	-4.2
Manufacturing	526,640	524,670	0.4	509,000	3.5
Durable goods	394,670	392,800	0.5	378,100	4.4
Nondurable goods	131,970	131,870	0.1	130,900	0.8
Private service-providing	2,724,900	2,723,740	0.0	2,683,060	1.6
Trade, transportation, and utilities	720,870	721,170	0.0	722,000	-0.2
Transportation and utilities	120,270	119,830	0.4	118,030	1.9
Wholesale trade	159,230	159,270	0.0	157,400	1.2
Retail trade	441,370	442,070	-0.2	446,570	-1.2
Information	54,400	53,100	2.4	53,430	1.8
Financial activities	200,130	198,330	0.9	193,730	3.3
Professional and business services	570,470	573,000	-0.4	548,500	4.0
Educational and health services	630,430	629,470	0.2	623,400	1.1
Leisure and hospitality	380,730	380,170	0.1	374,130	1.8
Other services	167,870	168,500	-0.4	167,870	0.0
Government	612,570	610,470	0.3	618,970	-1.0
Unemployment					
Number unemployed	430,110	395,540	8.7	484,140	-11.2
Unemployment rate (%)	9.2	8.5		10.4	
State indexes (1996 = 100)					
Local components					
UI initial claims	12,965	14,549	-0.9	13,881	-6.6
New dwelling units ^a	10,726	10,102	6.2	7,868	36.3

NOTE: Employment numbers for durable and nondurable goods, transportation and utilities, wholesale trade, and retail trade are seasonally adjusted by the W.E. Upjohn Institute. Other numbers are seasonally adjusted by the Bureau of Labor Statistics. Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and on employment data from the Michigan Department of Energy, Labor, and Economic Growth.

The retailers' relatively upbeat assessment of the coming holiday season is supported by a moderate rise in the state's personal income. During the second quarter, personal income rose modestly by 0.3 percent; however, based on a four-quarter moving average, it is only up 0.8 percent.

Government employment increased by 0.3 percent during the third quarter; however, over the past four quarters it has declined by 1.0 percent, a loss of 6,400 workers. Moreover, the state announced that it would eliminate as many as 400 unemployment insurance workers because federal funding has been cut as the number of persons on unemployment insurance in the state has declined.

In the third quarter, the number of new claims for unemployment insurance fell by nearly 11 percent in the state, suggesting that employment conditions are improving.

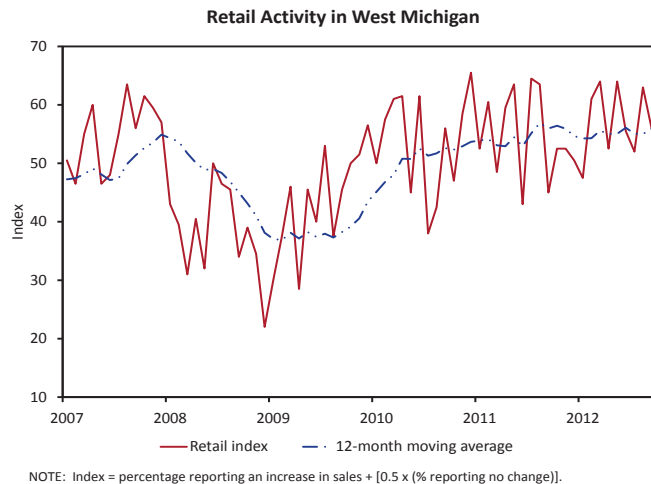
As mentioned earlier, residential building starts rose by 6.2 percent in the quarter. However, the Comerica Bank's Michigan Economic Activity Index, which is based on seven factors, dipped in August, declining by 1.2 points after three months of steady improvement.

In November, the University of Michigan released its 2013 and 2014 employment and personal income forecasts for the state, which foresee improving conditions in both years. The university forecasters believe that 51,700 jobs will be generated in the state in 2012; in 2013, another 37,500 jobs will be added, and 57,600 more will be created in 2014. Because of these expected employment gains, the state's unemployment rate is forecast to dip to 8.7 percent in 2013 and to 8.0 percent in 2014. Finally, personal income is predicted to grow by 2.6 percent in 2013 and by a further 4.5 percent in 2014.

WEST MICHIGAN ECONOMY

The Region's Economy Retreats as Its Manufacturing Stalls

Total employment fell 0.6 percent during the third quarter in the six metropolitan areas of west Michigan, a loss of nearly 5,000 jobs. Employers across all sectors of the region trimmed their workforce except, surprisingly, government. The area's unemployment rate continued its downward path despite the lack of job growth, dipping to 7.5 percent in the quarter. Both of the region's economic indicators moved in a positive direction, suggesting that the region's employment situation could improve in the coming months.



Employment in the region's goods-producing sector was off 0.3 percent during the quarter because of a 1.9 percent decline in construction and a small 0.1 percent drop in manufacturing. This pause in manufacturing employment growth comes after a period of robust growth for the sector. Manufacturing employment in the region increased by a robust 3.0 percent during the past four quarters, a gain of 4,250 jobs.

As expected, this year's extremely low-yielding fruit and crop harvest, a result of last spring's erratic weather, has significantly reduced the demand for agricultural workers this fall. Temperatures in the 80s in early spring, followed by a freezing snap, severely affected the region's apple and peach crops: one grower reported that his harvest was less than 1.0 percent of a normal year's crop, and the U.S. Department of Agriculture estimates the region will suffer an 89 percent crop loss. Demand for pickers and packagers is reportedly down by more than 50 percent.

Employment in the region's service-providing sector was also off for the quarter, dropping 0.9 percent, a loss of 4,760 jobs. Employment declines were reported across all service sectors. Employment in the region's professional and business services was down 1.1 percent during the quarter, while employment in the area's educational and health care sector was down by a smaller 0.3 percent.

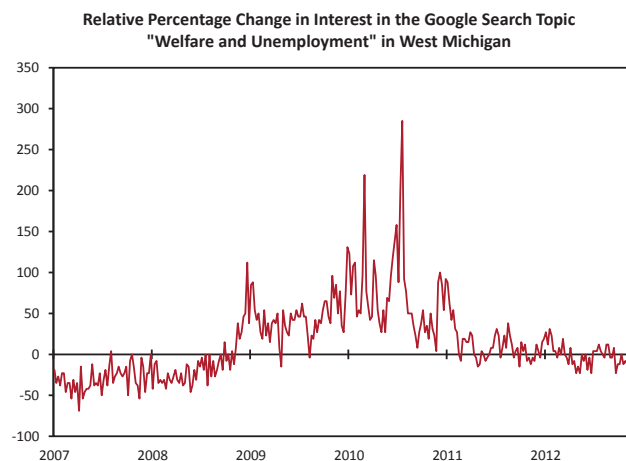
Reports from the region's tourism industry were positive this summer; however, employment in leisure and hospitality fell by 2.9 percent during the third quarter, a loss of more than

2,000 jobs, and it was down by more than 500 jobs from last year. The Holland Area Convention and Visitors Bureau reported that occupancy rates at the area's lodging facilities were 10 percent higher this past June than they had been the previous June, whereas July rates were on par with the previous year. In Muskegon County, lodging reports were positive as well: room tax revenues in the county were up 27 percent in June and up by a smaller 3.6 percent in July over the same month in the previous year.

Employment in the region's retail sector was off 0.3 percent during the quarter from the previous quarter, a loss of 230 jobs, and was down 0.6 percent from a year ago. However, according to the monthly survey of the region's retailers conducted by the Chicago Federal Reserve in cooperation with the Michigan Retailers Association, retail activity has been fairly stable during the past year, if not slightly up.

Government employment was up 0.5 percent; however, this could be because of seasonal factors, such as teachers returning to their classrooms a little earlier than normal.

The economic indicators for the region were positive during the quarter, suggesting that employment conditions could improve in the closing months of the year. The number of new claims for unemployment insurance fell by 1.6 percent, while the number of new dwelling units put under contract for construction was up 22.3 percent.



The latest Manpower survey for the west Michigan region found that hiring trends are holding steady. Its Net Employment Outlook reading for the third quarter—the difference between the percentage of surveyed firms planning to hire and the percentage expecting to cut staff—stood at 11 percent, matching last year's third-quarter reading. However the result for the third quarter of this year is down from the 18 percent recorded in the second quarter.

There has been very little movement in the Google Insights Index, which monitors the level of search activity on topics related to unemployment and welfare benefits relative to

West Michigan (6 MSAs) Statistics (seasonally adjusted)

Measure	2012 Q3	2012 Q2	% change, Q2 to Q3	2011 Q3	% change, Q3 to Q3
Employment (by place of work)					
Total nonfarm employment	794,430	799,300	-0.6	784,800	1.2
Goods-producing	170,850	171,420	-0.3	166,950	2.3
Construction and mining	25,830	26,320	-1.9	26,180	-1.3
Manufacturing	145,020	145,100	-0.1	140,770	3.0
Private service-providing	523,950	528,710	-0.9	517,480	1.3
Trade, transportation, and utilities	138,540	139,120	-0.4	139,720	-0.8
Retail trade	83,600	83,830	-0.3	84,110	-0.6
Information (5 MSAs) ^a	7,740	7,820	-1.0	7,820	-1.0
Financial activities	36,000	36,180	-0.5	35,590	1.2
Professional and business services	105,160	106,380	-1.1	99,580	5.6
Educational and health services	130,320	130,720	-0.3	128,220	1.6
Leisure and hospitality	70,150	72,230	-2.9	70,720	-0.8
Other services	36,040	36,260	-0.6	35,830	0.6
Government	99,630	99,170	0.5	100,370	-0.7
Unemployment					
Number unemployed	67,170	71,510	-6.1	83,290	-19.4
Unemployment rate (%)	7.5	7.9		9.3	
Local indexes					
UI initial claims	1,915	1,946	-1.6	2,142	-10.6
New dwelling units ^b	2,229	1,823	22.3	1,857	20.0

NOTE: Categories may not sum to total because of rounding.

^a Information employment data are not available for Battle Creek MSA.

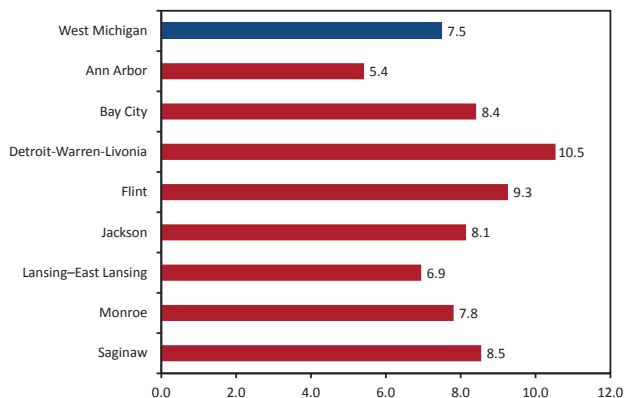
^b Seasonally adjusted annual rates. Van Buren County is not included.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and on employment data from the Michigan Department of Energy, Labor, and Economic Growth.

overall search activity in west Michigan. In fact the index has been negative or zero during the past two months.

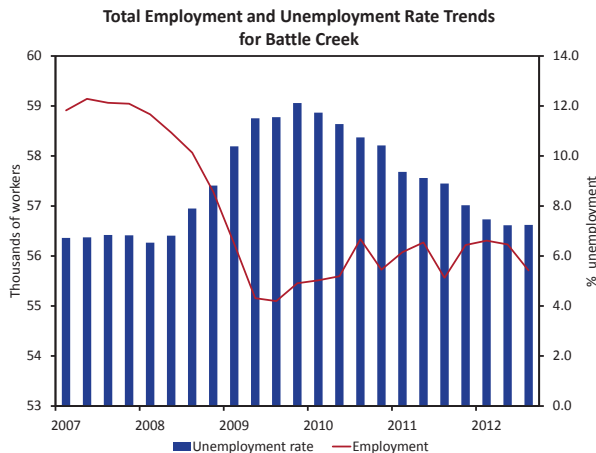
Finally, employment conditions in the state's metropolitan areas vary greatly: the Ann Arbor MSA has a fairly tight 5.4 percent unemployment rate, while residents of the greater Detroit area face a high 10.5 percent unemployment rate. The Lansing region is the only other area that has an unemployment rate lower than west Michigan as a whole.

**Unemployment Rate in Other Michigan Metropolitan Areas
(Q3 2012, seasonally adjusted)**



The Area's Economy Stalls in the Third Quarter

Total employment fell by 0.4 percent during the third quarter in Calhoun County, a loss of 250 jobs. The area's employment declines were concentrated in its private services sector. Not surprisingly given the lackluster employment performance for the quarter, the area's unemployment rate remained unchanged. The area's two economic indicators were mixed, suggesting that current sluggish employment conditions will hold during the final months of the year.



Total employment growth in the area has been relatively flat during the past two years. It reached 56,300 in the second quarter of 2010 and again in the first quarter of 2011, only to retreat in the following quarters. Currently, employment is down to 55,700. The area's unemployment rate continues to fall, despite its lackluster employment performance, from a high of 12.1 percent in the fourth quarter of 2009 to its current rate of 7.2 percent. However, the decline in the area's employment rate has clearly slowed in the past two quarters.

Employment in the area's education and health care services sector and its government sector has been holding steady and seemingly was unaffected by the 2007–2009 recession. Currently, employment levels in the two sectors are up 4.0 percent and 6.0 percent, respectively, from 2007. On the other hand, employment in the area's manufacturing sector, while modestly growing, is still 13 percent below its 2007 level.

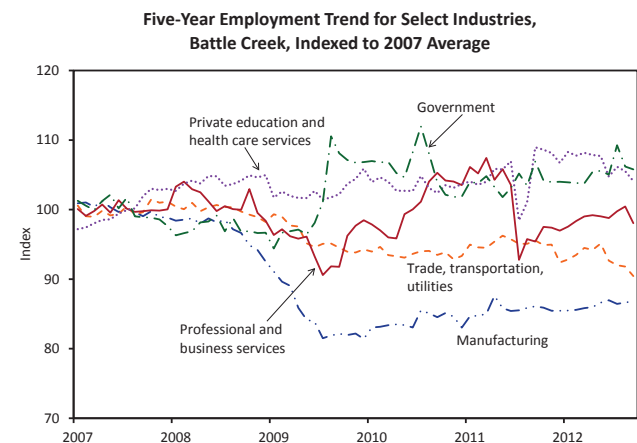
Employment in the area's goods-producing sector remained unchanged during the quarter, as modest gains in its manufacturing sector offset declines in construction. The decline in construction employment may reverse itself in the coming months, as there was a 117.4 percent increase in the number of new dwelling units put under contract for construction.

Recent business reports have been very positive. Janesville Acoustics, a manufacturer of auto acoustical and thermal fiber insulation, announced that it would invest \$10 million and employ 225 people in Battle Creek. In Homer, RSB Transmission announced that it would invest \$14.4 million and would add 100 new jobs at its plant. The company manufactures machining, fabricating, and assembly parts for a wide variety of industries, including automotive, medical, railroad, and aerospace.

Employment in the area's service-producing sectors fell by 1.3 percent, a loss of more than 400 jobs during the quarter. The area's retailers eliminated 160 jobs during the quarter, and the area's educational and health services cut 140 workers from their payrolls. More modest declines were reported in the area's financial services, tourism-related activities, and other services.

Borgess Health is constructing its Borgess Health Park, a new 65,000-square-foot, \$26.9 million ambulatory care facility that is scheduled to open in mid-2014. It is estimated that 80 to 90 health care professionals and their support staff will work at the facility. However, many of these health care professionals are already located in the area and are simply moving into the building.

Government employment was up by 1.7 percent; however, this could be the result of teachers reporting back to work earlier than normal. In addition, part of the increase could be due to hiring at the FireKeepers Casino to staff its recently completed hotel.



The area's economic indicators were mixed during the third quarter. The number of new claims for unemployment insurance rose nearly 4.0 percent during the quarter, which indicates that some firms are trimming their workforce. However, the number of new dwelling units put under contract for new construction, as mentioned before, shot up 117.4 percent.

Battle Creek MSA
(seasonally adjusted)

Measure	2012 Q3	2012 Q2	% change, Q2 to Q3	2011 Q3	% change, Q3 to Q3
Employment (by place of work)					
Total nonfarm employment	55,550	55,800	-0.4	55,380	0.3
Goods-producing	12,410	12,400	0.1	12,400	0.1
Construction and mining	1,640	1,680	-2.4	1,730	-5.2
Manufacturing	10,770	10,720	0.5	10,670	0.9
Durable goods	7,520	7,480	0.5	7,420	1.3
Nondurable goods	3,250	3,240	0.3	3,250	0.0
Private service-providing ^a	32,720	33,150	-1.3	32,760	-0.1
Trade, transportation, and utilities	8,740	8,980	-2.7	9,110	-4.1
Retail trade	5,580	5,740	-2.8	5,780	-3.5
Financial activities	1,360	1,390	-2.2	1,400	-2.9
Professional and business services	5,970	5,940	0.5	5,680	5.1
Educational and health services	9,950	10,090	-1.4	9,730	2.3
Leisure and hospitality	4,510	4,530	-0.4	4,580	-1.5
Other services	2,190	2,220	-1.4	2,260	-3.1
Government	10,420	10,250	1.7	10,220	2.0
Unemployment					
Number unemployed	4,650	4,670	-0.4	5,670	-18.0
Unemployment rate (%)	7.2	7.2		8.9	
Local indexes					
UI initial claims	185	178	3.9	237	-21.9
New dwelling units ^b	50	23	117.4	8	525.0

NOTE: Categories may not sum to total because of rounding.

^a Data for information services is included in the "other services" sector.

^b Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and on employment data from the Michigan Department of Energy, Labor, and Economic Growth.

Battle Creek MSA
Industry Employment Change by Place of Work, First Quarter to First Quarter
(not seasonally adjusted)

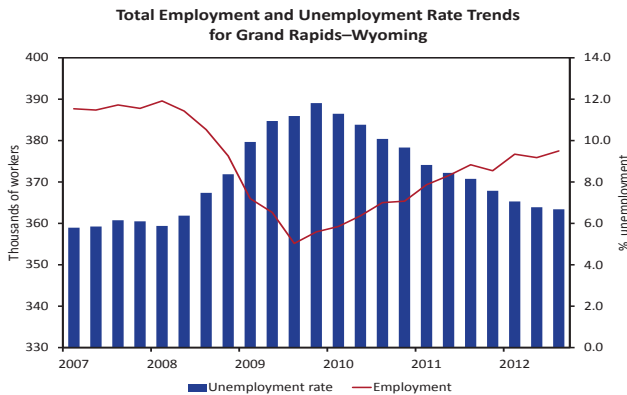
Industry	2012 Q1	2011 Q1	Percent change	Industry	2012 Q1	2011 Q1	Percent change
Goods-producing				Ambulatory health care services	2,920	2,930	-0.3
Food manufacturing	2,290	2,330	-1.7	Arts, entertainment, and recreation	470	460	2.2
Fabricated metal products mfg.	2,140	1,770	20.9	Accommodation and food services	3,100	3,720	-16.7
Transportation equipment mfg.	4,120	3,820	7.9	Food services and drinking places	2,820	3,430	-17.8
Private service-providing				Government			
Professional and technical services	2,450	2,350	4.3	Federal Government	2,910	2,890	0.7
Administrative and support services	2,270	3,210	-29.3	State Government	450	400	12.5
Educational services	1,340	1,340	0.0	Local Government	6,710	6,810	-1.5
Health care and social assistance	8,260	8,050	2.6				

SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

GRAND RAPIDS–WYOMING MSA

Healthy Employment Gains Across Nearly All Sectors

Total employment increased by a healthy 0.6 percent, a gain of more than 2,300 jobs, during the third quarter. Employment gains were reported across the board, with the sole exception being in manufacturing, where employment remained flat for the quarter. The increased hiring pushed the area's unemployment rate down to 6.7 percent. Moreover, the area's economic indicators are mostly positive, suggesting that employment conditions may continue to improve for the remainder of the year.



Total employment has been steadily increasing in the four-county area since the third quarter of 2009. Since then, total employment has increased by more than 22,000 jobs, a 6.3 percent increase. Not surprisingly, the steady gain in employment has been accompanied by a steady decline in the area's unemployment rate, which has fallen from a high of 11.8 percent in the fourth quarter of 2009 to its current 6.7 percent.

Employment levels in the area's private education and health care services and in its professional and business services have fully recovered from the 2007–2009 recession. Employment in the area's "eds and meds" sector is 13 percent higher than it was in 2007, while employment in professional and business services is up 10 percent. However, employment in the area's other major economic sectors remains below 2007 levels. In fact, employment levels in manufacturing; government; and trade, transportation, and utilities are all approximately 10 percent below their levels in 2007.

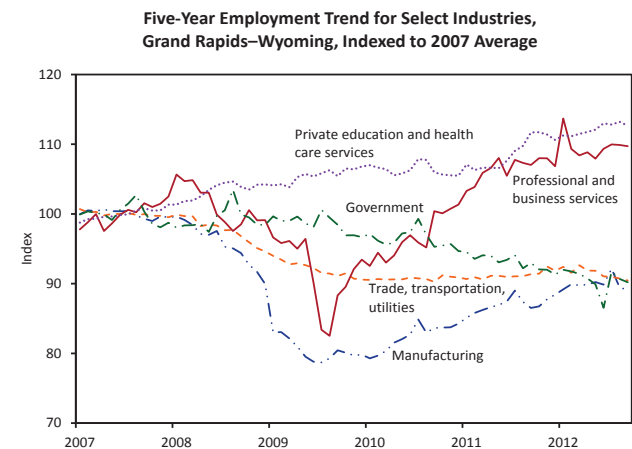
During the third quarter, employment in the area's goods-producing sector rose by 0.5 percent, due solely to a solid 3.7 percent jump in construction employment, an increase of 450 jobs. The gain is supported by a robust 45.5 percent increase in the number of new dwelling units put under contract for construction during the quarter. However, the area's manufacturers were quiet for the quarter: during the past four quarters, they had added more than 1,800 workers to their payrolls, but in the third quarter they trimmed their employment by 0.1 percent.

Autocam Corporation announced that with the addition of two new lines, the company will invest over \$50 million at its 14 production facilities around the world and will hire approximately 200 new workers in west Michigan. Currently, the auto supplier, which makes components for fuel injection

pumps and oxygen sensors, employs nearly 700 workers in west Michigan.

Finally, in Ionia County, Herbruck's Poultry Ranch recently opened an \$11 million feed production facility, making that firm the largest egg producer in Michigan. It is a major supplier of McDonald's and employs 400 workers.

Employment in the area's private services–providing sector was up 0.5 percent during the quarter, as substantial gains were reported in professional and business services (a gain of 650 jobs), educational and health care (an increase of 360 jobs), and leisure and hospitality (900 jobs). Still, the area's retailers cut their workforce by 1.8 percent, representing a loss of 660 jobs, and a small cut occurred in the area's information sector.



The area's warehousing sector received a boost as 1st Source Servall opened its new 65,000-square-foot distribution center for heating and cooling and appliance parts. So far the company has hired 30 new workers.

Finally, government employment was up by 2.0 percent. Grand Rapids is eliminating 33 jobs through the development of a 3-1-1 customer service system. The 3-1-1 system enables residents to call one central number for assistance instead of having to call a specific department within the city.

Both of the area's economic indicators improved during the quarter. The number of new claims for unemployment insurance fell by 4.7 percent, suggesting that fewer layoffs are being reported. In addition, the number of new dwelling units put under contract for construction rose by a strong 45.5 percent. However the findings from the latest survey of the area's purchasing managers suggest that conditions are slowing in the manufacturing sector.

Grand Rapids–Wyoming MSA
(seasonally adjusted)

Measure	2012 Q3	2012 Q2	% change, Q2 to Q3	2011 Q3	% change, Q3 to Q3
Employment (by place of work)					
Total nonfarm employment	377,900	375,580	0.6	374,140	1.0
Goods-producing	76,600	76,200	0.5	75,380	1.6
Construction and mining	12,480	12,030	3.7	13,100	-4.7
Manufacturing	64,120	64,170	-0.1	62,280	3.0
Durable goods	42,170	42,330	-0.4	40,730	3.5
Nondurable goods	21,950	21,840	0.5	21,550	1.9
Private service-providing	268,550	267,280	0.5	265,270	1.2
Trade, transportation, and utilities	66,900	67,550	-1.0	67,250	-0.5
Transportation and utilities	9,550	9,530	0.2	9,550	0.0
Wholesale trade	20,790	20,800	0.0	20,850	-0.3
Retail trade	36,560	37,220	-1.8	36,850	-0.8
Information	4,110	4,200	-2.1	4,180	-1.7
Financial activities	19,570	19,520	0.3	19,480	0.5
Professional and business services	62,800	62,150	1.0	61,420	2.2
Educational and health services	65,780	65,420	0.6	64,190	2.5
Leisure and hospitality	32,320	31,420	2.9	31,780	1.7
Other services	17,070	17,020	0.3	16,970	0.6
Government	32,750	32,100	2.0	33,490	-2.2
Unemployment					
Number unemployed	25,820	26,160	-1.3	31,070	-16.9
Unemployment rate (%)	6.7	6.8		8.1	
Local indexes					
UI initial claims	709	744	-4.7	785	-9.7
New dwelling units ^a	1,480	1,017	45.5	738	100.5

NOTE: Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and on employment data from the Michigan Department of Energy, Labor, and Economic Growth.

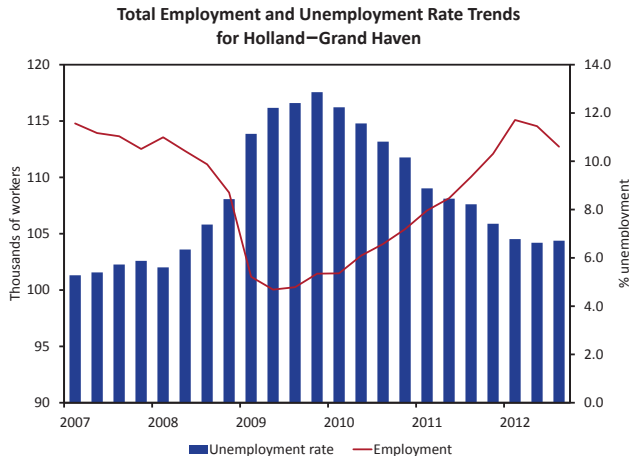
Grand Rapids–Wyoming MSA
Industry Employment Change by Place of Work, First Quarter to First Quarter
(not seasonally adjusted)

Industry	2012 Q1	2011 Q1	Percent change	Industry	2012 Q1	2011 Q1	Percent change
Goods-producing				Health care and social assistance	52,840	50,320	5.0
Food manufacturing	6,860	6,860	0.0	Ambulatory health care services	16,110	15,440	4.3
Chemical manufacturing	3,290	4,090	-19.6	Hospitals	21,650	20,540	5.4
Plastics and rubber products mfg.	6,490	5,890	10.2	Arts, entertainment, and recreation	3,770	3,490	8.0
Fabricated metal products mfg.	6,460	6,190	4.4	Accommodation and food services	27,660	26,240	5.4
Machinery manufacturing	8,330	7,090	17.5	Food services and drinking places	25,360	24,070	5.4
Transportation equipment mfg.	11,060	8,890	24.4	Government			
Furniture and related products mfg.	5,780	5,840	-1.0	Federal government	3,120	3,280	-4.9
Private service-providing				State government	3,040	3,070	-1.0
Professional and technical services	15,170	14,380	5.5	Local government	26,360	26,980	-2.3
Administrative and support services	42,220	35,940	17.5				
Educational services	9,140	9,250	-1.2				

SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

The Economy Hits a Roadblock in the Third Quarter

Total employment fell by 1.7 percent in Ottawa County during the third quarter, with employment reductions reported across all of the county's major economic sectors. Although nearly 2,000 jobs were lost during the quarter, employment in the area is up by 2.2 percent for the past four quarters, a gain of nearly 2,500 jobs. The third quarter's dismal employment performance nudged the county's unemployment rate up to 6.7 percent. Unfortunately, the economic indicators for the area were mixed, suggesting that employment conditions may remain soft in the final months of the year.



Employment in Ottawa County peaked during the first quarter of this year, when it reached just above 115,000 workers. In the first quarter, employment had fully recovered from the recession in Ottawa County, making it the only MSA in west Michigan that has managed to fully reverse the job losses it has suffered since 2007. Since then, however, county employers have cut 2,300 workers from their payrolls. Still, the drop in employment has not yet significantly affected the area's unemployment rate, which remains well below 7.0 percent.

Three of the area's five major economic sectors have fully recovered from the 2007–2009 recession. Current employment levels in its professional and business services sector and, surprisingly, its government sector—which includes Grand Valley State University—are 15 percent above their 2007 levels. Although employment in the county's private education and health care sector has been trending downward during the past year, the sector still employs 6.0 percent more workers than in 2007. Finally, manufacturers have also made substantial employment gains during the past two years and are within 6.0 percent of their 2007 employment levels.

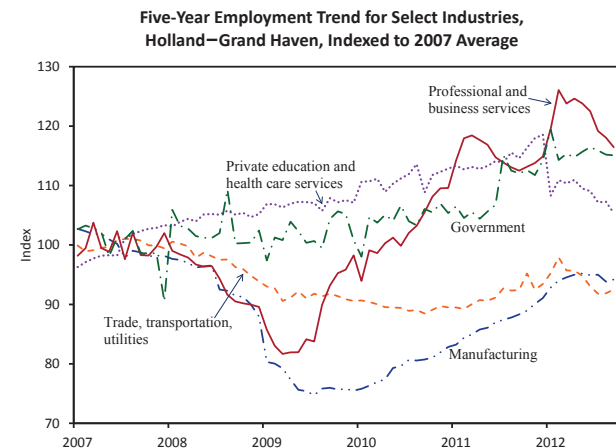
During the third quarter, employment in the area's goods-producing sector was down 0.4 percent because the area's manufacturers eliminated 240 jobs. Employment in the area's construction sector was up by 2.5 percent, a gain of 100 workers. The gain in construction is in line with a 14.5 percent increase in the number of new dwelling units put under construction during the quarter.

The quarter's loss in manufacturing jobs runs counter to most business reports, which cite numerous plant expansions.

Gentex announced another expansion, for \$45.6 million, which will create up to 100 jobs during the next two years. Magna announced plans to create another 177 jobs by 2016 at its advanced glass manufacturing facility in Holland. Finally, Challenge Manufacturing, another auto supplier, announced plans to add 40 more employees.

Johnson Controls is buying the automotive assets of the bankrupted A123 Systems, one of its unsuccessful competitors in lithium-ion battery production, for a reported \$125 million. It is unclear whether this purchase will have an impact on Johnson Controls' Holland operations. LG Chem, which also has a lithium-ion facility in Holland, announced that General Motors, its primary customer, would begin production late next year on a luxury version of its Chevrolet Volt hybrid, the Cadillac ELR. This is good news, as LG Chem has had its workers on rolling furloughs since spring.

On a down note, furniture maker Haworth announced plans to close its Douglas plant; it will move the plant's production to other west Michigan plants. In addition, Hickory Springs Manufacturing announced that it is moving its Holland Wire Products operation to a North Carolina plant near its headquarters, eliminating the jobs of nearly 40 area workers.



Employment in the area's private services-providing sector fell by 3.0 percent, a loss of nearly 1,800 workers. Employment reductions were reported across the board, with significant cuts occurring in professional and business services (a loss of 630 workers), education and health care (a reduction of 340 workers), and retail trade (330 workers). Finally, government employment was down by 0.2 percent as well during the quarter.

The area's two economic indicators pointed in opposite directions, suggesting that employment conditions may remain soft in the coming months. The number of new claims for unemployment insurance rose by 5.0 percent; however, the number of new dwelling units put under contract for construction increased by nearly 15 percent.

Holland–Grand Haven MSA
(seasonally adjusted)

Measure	2012 Q3	2012 Q2	% change, Q2 to Q3	2011 Q3	% change, Q3 to Q3
Employment (by place of work)					
Total nonfarm employment	112,720	114,680	−1.7	110,280	2.2
Goods-producing	37,350	37,490	−0.4	34,940	6.9
Construction and mining	4,060	3,960	2.5	3,930	3.3
Manufacturing	33,290	33,530	−0.7	31,010	7.4
Private service-providing	57,590	59,370	−3.0	57,880	−0.5
Trade, transportation, and utilities	16,360	16,790	−2.6	16,460	−0.6
Retail trade	9,260	9,590	−3.4	9,250	0.1
Information	700	690	1.4	700	0.0
Financial activities	3,250	3,370	−3.6	3,260	−0.3
Professional and business services	13,080	13,710	−4.6	12,600	3.8
Educational and health services	11,070	11,410	−3.0	11,920	−7.1
Leisure and hospitality	8,440	8,590	−1.7	8,350	1.1
Other services	4,690	4,810	−2.5	4,590	2.2
Government	17,780	17,820	−0.2	17,460	1.8
Unemployment					
Number unemployed	8,800	8,780	0.2	10,520	−16.3
Unemployment rate (%)	6.7	6.6		8.2	
Local indexes					
UI initial claims	314	299	5.0	294	6.8
New dwelling units ^a	591	516	14.5	404	46.3

NOTE: Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and on employment data from the Michigan Department of Energy, Labor, and Economic Growth.

UPDATE TO PAGE 14, SECOND COLUMN, SECOND PARAGRAPH, FIRST SENTENCE: After Business Outlook went to press, news broke that Johnson Controls, which has a lithium-ion battery plant in Holland, will not buy battery maker A123 Systems after all, as we had reported on p. 14. Instead, A123, which is bankrupt, will sell most of its assets to Wanxiang America, the U.S. arm of Chinese auto-parts conglomerate Wanxiang Group, for \$256.6 million. Wanxiang America won an auction supervised by the U.S. Bankruptcy Court. It will buy all of A123's assets except for its Ann Arbor–based government business, which will be sold to Navitas Systems of Woodridge, Ill., for \$2.25 million. In October, A123 sought bankruptcy protection and said it would sell its automotive unit to Johnson Controls, an auto-parts maker based in Milwaukee, for \$125 million. However, Wanxiang entered the bidding, outbid Johnson Controls, and provided bankruptcy financing when Johnson Controls decided not to.

Holland–Grand Haven MSA
Industry Employment Change by Place of Work, First Quarter to First Quarter
(not seasonally adjusted)

Industry	2012 Q1	2011 Q1	Percent change	Industry	2012 Q1	2011 Q1	Percent change
Goods-producing				Health care and social assistance	9,090	8,920	1.9
Food manufacturing	3,310	3,160	4.7	Ambulatory health care services	4,010	3,910	2.6
Fabricated metal products mfg.	4,780	4,480	6.7	Arts, entertainment, and recreation	580	610	−4.9
Machinery manufacturing	2,210	1,980	11.6	Accommodation and food services	7,380	6,740	9.5
Transportation equipment mfg.	4,530	3,700	22.4	Food services and drinking places	6,770	6,180	9.5
Furniture and related products mfg.	4,830	4,730	2.1	Government			
Private service-providing				Federal government	410	420	−2.4
Professional and technical services	3,180	3,120	1.9	State government	3,080	2,860	7.7
Administrative and support services	7,680	8,110	−5.3	Local government	10,250	10,320	−0.7
Educational services	2,050	2,070	−1.0				

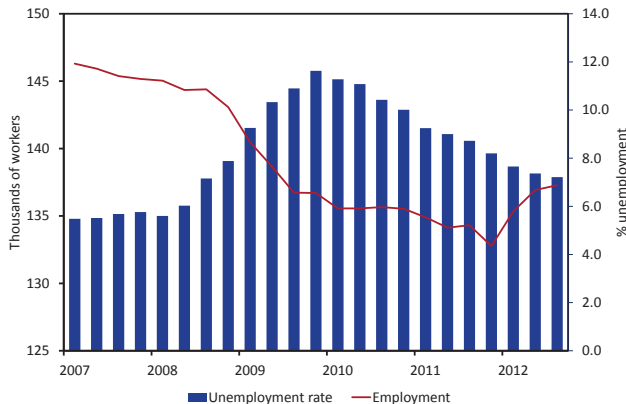
SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

KALAMAZOO-PORTAGE MSA

A Surprising Increase in Government Employment Keeps the Economy in Positive Territory

Total employment inched up by 0.1 percent during the third quarter in the area, a gain of only 100 jobs. The slight employment increase was due solely to gains in government employment; private employment in the two-county MSA fell by 250 jobs, a 0.2 percent decline. Despite the lack of private-sector job growth, the area's unemployment rate dipped to 7.2 percent during the quarter. The area's economic indicators moved very little, suggesting that lackluster employment conditions will likely hold for the rest of the year.

Total Employment and Unemployment Rate Trends, for Kalamazoo-Portage



The area was slow in coming out of the 2007–2009 recession. In fact, it was not until the first quarter of this year that employment finally turned the corner. During the first quarter, area employers added nearly 2,600 jobs, followed by a 1,600-job increase for the second quarter. The pace clearly slowed during the third quarter. What is somewhat surprising is that the area's unemployment rate started to decline at the beginning of 2010. For nearly two years, the area's unemployment rate continued to fall at the same time that area employers were cutting nearly 3,000 workers from their payrolls. While it is not unusual to see this contradictory movement occur for one or two quarters, it is surprising to see it happening for such a long period of time.

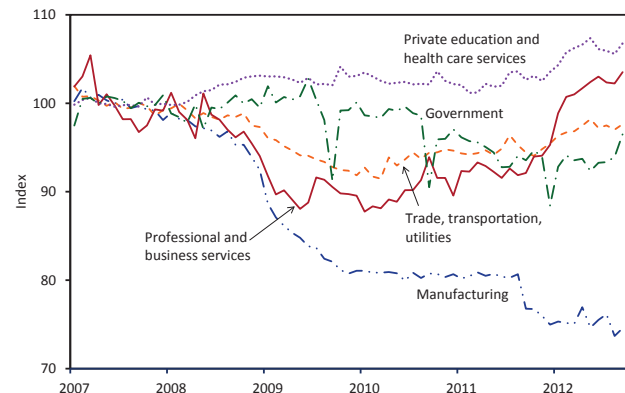
Turning to the area's major economic sectors, employment in private education and health care services was not affected by the recession; in fact, the sector employs 6.0 percent more workers today than it did in 2007. Although the area's professional and business services sector suffered employment declines during the recession, it bounced back and currently employs more individuals than it did in 2007. In sharp contrast, the area's manufacturers have experienced employment losses for the past five years; that sector now employs only 75 percent of the number of workers it had in 2007.

During the third quarter, employment in the area's goods-producing sector was down 0.8 percent, due solely to a 0.9 percent drop in manufacturing employment. Construction employment remained unchanged during the quarter, as did the number of new dwelling units put under contract for construction.

However, recent business reports are positive. Mueller Copper Tube Products Company announced plans for a \$26.5 million expansion, which will create nearly 80 jobs. The expanded plant will produce high volumes of plastic drain-waste-vent fittings. In Three Rivers, American Axle announced that it plans to add 400 to 500 jobs in the next several years at its drive train (or driveline) plant. While General Motors and Chrysler remain its largest customers, it is also a supplier to Volkswagen and Nissan.

The area's private service providers trimmed their workforce by 0.1 percent, a loss of 90 jobs. Employment losses were reported among the area's retailers, its transportation and warehousing companies, and its private education and health providers. On the upside, the area's wholesalers, its professional and business service providers, and its tourism-related businesses reported gains in employment during the quarter. A 75-room Microtel Inn and Suites by Wyndham recently opened and could employ as many as 24 workers. On the downside, the University of Phoenix is closing its Kalamazoo facility as a part of a nationwide restructuring plan for the for-profit education company. The employment impact of the closure is unknown.

Five-Year Employment Trend for Select Industries, Kalamazoo-Portage, Indexed to 2007 Average



Government employment was 1.6 percent during the quarter, a pickup of 350 jobs; however, this was likely due to the area's teachers reporting back to school earlier than usual. The Western Michigan University School of Medicine is in the process of hiring staff and instructors so that it can meet its goal of opening in the fall of 2014. In addition, Portage Public Schools hired five new elementary principals and more than 30 new teachers, as the district this fall has launched all-day kindergarten and Young Fives, a transitional program between preschool and kindergarten.

The area's economic indicators were quiet during the quarter. The number of new unemployment insurance claims inched down 1.2 percent, and the number of new dwelling units put under contract for construction was flat during the quarter. In addition, local purchasing managers surveyed concur that employment conditions may remain flat for the rest of the year.

Kalamazoo-Portage MSA
(seasonally adjusted)

Measure	2012 Q3	2012 Q2	% change, Q2 to Q3	2011 Q3	% change, Q3 to Q3
Employment (by place of work)					
Total nonfarm employment	137,130	137,030	0.1	133,960	2.4
Goods-producing	21,060	21,220	-0.8	22,180	-5.0
Construction and mining	4,110	4,110	0.0	4,460	-7.8
Manufacturing	16,950	17,110	-0.9	17,720	-4.3
Durable goods	9,500	9,560	-0.6	9,650	-1.6
Nondurable goods	7,450	7,550	-1.3	8,070	-7.7
Private service-providing	94,060	94,150	-0.1	90,040	4.5
Trade, transportation, and utilities	24,160	24,240	-0.3	23,670	2.1
Transportation and utilities	3,390	3,470	-2.3	3,420	-0.9
Wholesale trade	5,860	5,820	0.7	5,630	4.1
Retail trade	14,910	14,950	-0.3	14,620	2.0
Information	1,100	1,110	-0.9	1,100	0.0
Financial activities	8,130	8,140	-0.1	7,800	4.2
Professional and business services	16,060	16,010	0.3	14,440	11.2
Educational and health services	23,080	23,220	-0.6	22,480	2.7
Leisure and hospitality	14,700	14,600	0.7	14,020	4.9
Other services	6,830	6,830	0.0	6,530	4.6
Government	22,010	21,660	1.6	21,740	1.2
Unemployment					
Number unemployed	11,770	12,030	-2.2	13,930	-15.5
Unemployment rate (%)	7.2	7.4		8.7	
Local indexes					
UI initial claims	248	251	-1.2	282	-12.1
New dwelling units ^a	348	348	0.0	492	-29.3

NOTE: Categories may not sum to total because of rounding.

^aSeasonally adjusted annual rates; does not include Van Buren County dwelling permit data.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and on employment data from the Michigan Department of Energy, Labor, and Economic Growth.

Kalamazoo-Portage MSA
Industry Employment Change by Place of Work, First Quarter to First Quarter
(not seasonally adjusted)

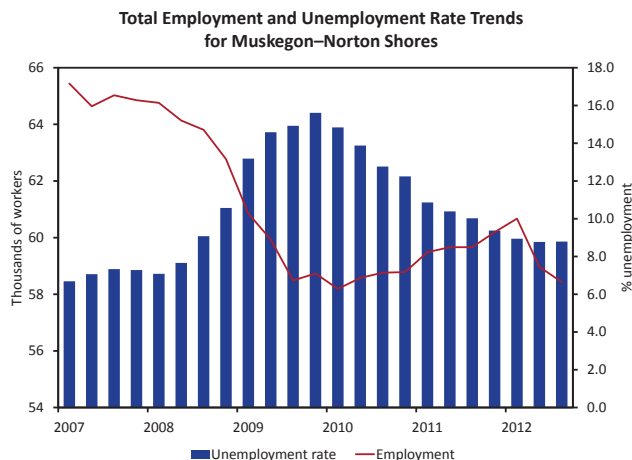
Industry	2012 Q1	2011 Q1	Percent change	Industry	2012 Q1	2011 Q1	Percent change
Goods-producing				Health care and social assistance	18,920	18,720	1.1
Food manufacturing	1,380	1,510	-8.6	Ambulatory health care services	6,290	6,290	0.0
Paper manufacturing	1,870	1,840	1.6	Hospitals	6,590	6,670	-1.2
Fabricated metal products mfg.	1,820	1,790	1.7	Arts, entertainment, and recreation	1,420	1,440	-1.4
Machinery manufacturing	2,140	1,950	9.7	Accommodation and food services	12,550	12,150	3.3
Transportation equipment mfg.	1,830	1,880	-2.7	Food services and drinking places	11,050	10,670	3.6
Private service-providing				Government			
Professional and technical services	5,190	5,130	1.2	Federal Government	970	1,010	-4.0
Administrative and support services	7,860	7,080	11.0	State Government	4,320	4,170	3.6
Educational services	2,340	2,350	-0.4	Local Government	12,960	13,400	-3.3

SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

MUSKEGON-NORTON SHORES MSA

Weakness in the Area's Service Sector Pulls Its Economy into Negative Territory

Total employment fell by 0.8 percent during the third quarter, a loss of 500 jobs. All of the job losses were reported in the area's private service-providing sector. Despite the drop in employment, the area's unemployment rate stayed at 8.8 percent during the quarter. Unfortunately, the area's two economic indicators went in opposite directions during the quarter, which suggests that the area's employment situation may remain soft for the rest of the year.



After increasing at a steady pace for two years, employment in the area has suffered two straight quarters of decline. Since the first quarter of this year, employers have cut 2,240 jobs from their payrolls. However, despite this drop in employment opportunities, the area's unemployment rate continues to inch downward. In fact, the number of persons unemployed during the third quarter is down 1.1 percent from the previous quarter. The likely explanation for these opposing trends is that some unemployed Muskegon County residents are successfully finding employment outside the county.

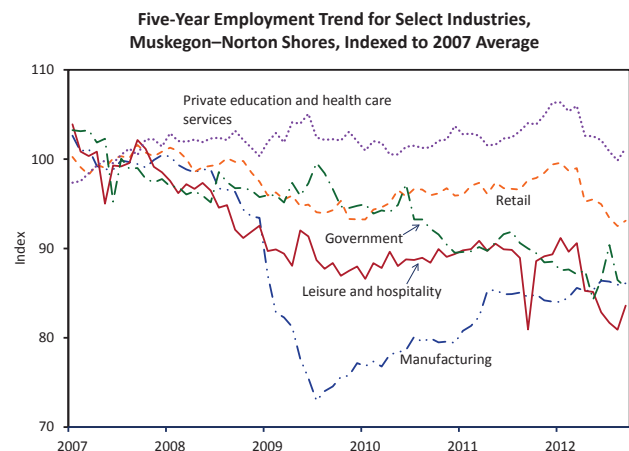
Of the region's major employment sectors, the private education and health care sector remains the only one that has fully recovered from the recession. In fact, as shown in the accompanying chart, the sector was remarkably stable during the recession. Manufacturing was clearly the hardest hit; however, it has made the sharpest comeback of the area's major sectors. From the bottom of the recession in the summer of 2009 to September of this year, manufacturers have added 1,700 jobs. Finally, although the weather this past summer was warmer and drier than normal, employment trends in both the leisure and hospitality sector and the retail trade sector have been down for the year.

Employment in the area's goods-producing sector was up 0.9 percent during the quarter, an increase of more than 100 jobs, with employment gains reported in both the area's manufacturing and its construction sectors.

The area's latest business reports have been positive. Johnson Technology (GE Aviation) announced plans for a \$301,000 expansion that will create 24 new jobs. The company, which currently employs 550 workers, manufactures jet engine parts for commercial and military aircraft. In addition, Forming Technologies LLC, a maker of heavy-gauge thermo-formed

products manufactured primarily for the auto industry, announced plans to add 21 jobs to its existing 68-person workforce.

However, employment fell by 1.9 percent, a drop of nearly 750 jobs, in the area's service-providing sector during the quarter. Each of four subsectors—retailers, financial institutes, education and health care providers, and tourist-related businesses—reduced their workforces by more than 150 workers. As mentioned above, the employment trend in the area's leisure and hospitality sector is particularly troubling, as employment has declined by 350 workers from last year's level. In the area's retail sector, which is also tourist-related, employment is down by nearly 500 jobs from a year ago.



Government employment grew by 1.7 percent during the quarter. Much of this growth may have been caused by the reopening of the Muskegon Correctional Facility—the prison has reopened after having been closed since May 2011. The 1,338-bed facility was scheduled to be filled by the end of November, as prisoners are being transferred from the Ryan Correctional Facility on the east side of Detroit, which is to be closed. The Muskegon prison employs 239 workers.

The Muskegon Public School District's bus drivers, custodians, and maintenance workers kept their jobs by agreeing to a 5.5 percent wage cut totaling \$180,000 as part of a new three-year contract. The district could have saved much more if it had taken the path followed by Benton Harbor and outsourced these services. On the other hand, the City of Muskegon has decided to outsource its building inspection services because of an estimated \$100,000 in cost savings. The move will eliminate five government employees. The city already has privatized its garbage collection and recreational programs.

The area's economic indicators moved in opposite directions during the quarter, suggesting that current sluggish employment conditions could continue through the end of the year. The number of new claims for unemployment insurance increased by nearly 10 percent, while the number of new dwelling units put under contract for construction rose by nearly 8.0 percent.

Muskegon–Norton Shores MSA
(seasonally adjusted)

Measure	2012 Q3	2012 Q2	% change, Q2 to Q3	2011 Q3	% change, Q3 to Q3
Employment (by place of work)					
Total nonfarm employment	58,530	59,030	−0.8	59,760	−2.1
Goods-producing	12,640	12,530	0.9	12,500	1.1
Construction and mining	1,630	1,580	3.2	1,660	−1.8
Manufacturing	11,010	10,950	0.5	10,840	1.6
Private service-providing	37,890	38,630	−1.9	38,980	−2.8
Trade, transportation, and utilities	12,990	13,210	−1.7	13,380	−2.9
Retail trade	10,490	10,740	−2.3	10,960	−4.3
Information	760	810	−6.2	790	−3.8
Financial activities	1,770	1,800	−1.7	1,770	0.0
Professional and business services	3,100	3,060	1.3	2,960	4.7
Educational and health services	11,000	11,200	−1.8	11,300	−2.7
Leisure and hospitality	5,950	6,130	−2.9	6,300	−5.6
Other services	2,320	2,420	−4.1	2,480	−6.5
Government	8,000	7,870	1.7	8,280	−3.4
Unemployment					
Number unemployed	7,150	7,230	−1.1	8,200	−12.8
Unemployment rate (%)	8.8	8.8		10.0	
Local indexes					
UI initial claims	267	243	9.9	303	−11.9
New dwelling units ^a	109	101	7.9	96	13.5

NOTE: Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and on employment data from the Michigan Department of Energy, Labor, and Economic Growth.

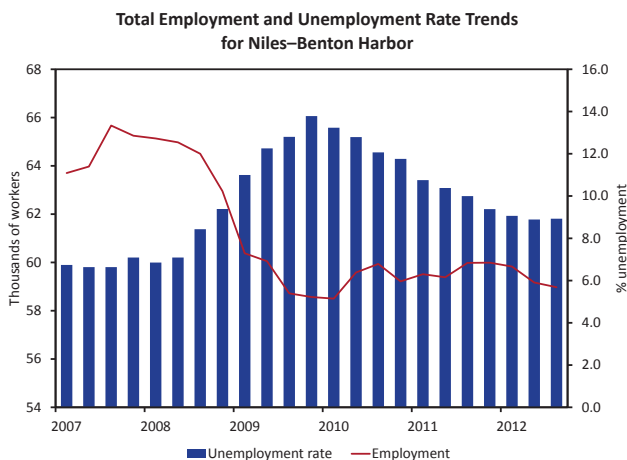
Muskegon–Norton Shores MSA
Industry Employment Change by Place of Work, First Quarter to First Quarter
(not seasonally adjusted)

Industry	2012 Q1	2011 Q1	Percent change	Industry	2012 Q1	2011 Q1	Percent change
Goods-producing				Health care and social assistance	9,910	9,850	0.6
Primary metal manufacturing	3,810	3,500	8.9	Ambulatory health care services	3,160	3,200	−1.3
Fabricated metal products mfg.	2,580	2,290	12.7	Arts, entertainment, and recreation	620	650	−4.6
Machinery manufacturing	1,160	1,150	0.9	Accommodation and food services	5,030	5,010	0.4
Transportation equipment mfg.	970	850	14.1	Food services and drinking places	4,730	4,740	−0.2
Private service-producing				Government			
Professional and technical services	990	960	3.1	Federal government	330	340	−2.9
Administrative and support services	1,640	1,750	−6.3	State government	890	1,040	−14.4
Educational services	770	1,010	−23.8	Local government	6,690	6,830	−2.0

SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

Employment Declines in Services Erase Gains in Manufacturing

Total employment inched down 0.2 percent during the third quarter because of continued weakness in the area's private service-providing sector. The total loss of employment, a modest 140 jobs, contributed to the lack of movement in the area's unemployment rate, which stayed at 8.9 percent. On the plus side, both of the area's economic indicators improved sharply during the quarter, suggesting that the area's economy could end the year on a positive note.



The area's unemployment rate appears to have plateaued at approximately 9.0 percent as the area's total employment has been in decline. During the past four quarters, total employment in Berrien County has fallen by 1.6 percent, resulting in a loss of nearly 1,000 jobs. At the same time, the number of unemployed persons in the county has dropped by nearly 900 individuals. It may appear contradictory to have both data series moving in the same direction; however, they may be pointing to the likelihood that more of the county's residents are either finding work outside of the county or are giving up on their job search.

Taking a longer view of the employment trends for the county's major industries shows that the education and health care services sector has recorded the strongest growth of any sector in the past two years; however, its path has been highly volatile during the past year and a half. Employment growth in the area's professional and business services has slowed in the past two years; nevertheless, it has fully recovered from its decline during what has come to be called the Great Recession. Neither manufacturing nor the combined sector of trade, transportation, and utilities has recovered from the recession. In fact, both seem to have reached stable employment levels that are between 80 and 90 percent of their 2007 levels.

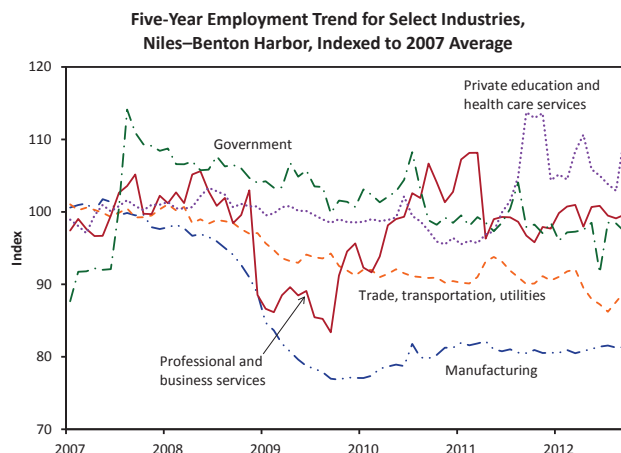
During the second quarter, employment in the area's goods-producing sector rose by 0.5 percent, as gains were posted in both the area's construction and its manufacturing sectors. The 1.9 percent increase in construction jobs is in line with a strong 23.5 percent jump in the number of new dwelling units put under contract for construction during the quarter.

Manufacturing employment rose by only 0.3 percent, an increase of just 40 jobs. Recent business reports have been

modest as well. Siemens Industry's Metallurgical Services Offline Maintenance (MSM) group is expanding and has so far added 10 workers to its existing staff of 60 workers. The facility makes and repairs components used in the steel industry. In addition, New Products Corporation, which makes aluminum and zinc parts for customers in the automotive and medical industries, announced that it has added 15 employees.

Unfortunately, employment in the area's service-providing sector fell 1.1 percent during the quarter, as that sector reported substantial losses in the educational and medical sector as well as in the leisure and hospitality sector. Combined, employers in these two sectors eliminated 250 jobs during the quarter.

Retail employment also fell by 0.7 percent during the quarter, a loss of 50 jobs. Office Depot recently closed its lone store in the area, eliminating 15 jobs.



Government employment provided a welcome boost to the economy, growing by 2.3 percent; however, this increase could be the result of the area's public school teachers and staff reporting back to work slightly earlier than normal. Berrien County approved a budget for the coming year that called for the elimination of 20 positions, most of them vacant. The number of full-time-equivalent workers at the county has declined from 740 in 2006 to 650 for 2013. In addition, Benton Harbor Area Schools announced that the district is outsourcing its secretaries and security officers, which will affect 26 workers.

The third-quarter readings of the area's two economic indicators were both positive. The number of new claims for unemployment insurance fell by 16 percent, and the number of new dwelling units put under contract for construction increased by 23.5 percent.

Finally, a recent survey conducted by the Cornerstone Chamber of Commerce found that the 64 firms that answered the survey were modestly optimistic about the next 12 months; half of them planned to add workers. Still, many are putting their expansion plans on hold because of uncertainty in the marketplace.

Niles–Benton Harbor MSA
(seasonally adjusted)

Measure	2012 Q3	2012 Q2	% change, Q2 to Q3	2011 Q3	% change, Q3 to Q3
Employment (by place of work)					
Total nonfarm employment	59,020	59,160	−0.2	60,000	−1.6
Goods-producing	13,430	13,360	0.5	13,400	0.2
Construction and mining	1,650	1,620	1.9	1,720	−4.1
Manufacturing	11,780	11,740	0.3	11,680	0.9
Private service-providing	37,070	37,470	−1.1	37,860	−2.1
Trade, transportation, and utilities	10,150	10,220	−0.7	10,530	−3.6
Retail trade	6,820	6,870	−0.7	6,890	−1.0
Information	500	510	−2.0	560	−10.7
Financial activities	2,370	2,380	−0.4	2,370	0.0
Professional and business services	5,750	5,780	−0.5	5,690	1.1
Educational and health services	10,150	10,290	−1.4	10,250	−1.0
Leisure and hospitality	5,620	5,730	−1.9	5,830	−3.6
Other services	2,530	2,560	−1.2	2,630	−3.8
Government	8,520	8,330	2.3	8,740	−2.5
Unemployment					
Number unemployed	6,430	6,490	−0.9	7,290	−11.8
Unemployment rate (%)	8.9	8.9		10.0	
Local indexes					
UI initial claims	158	188	−16.0	174	−9.2
New dwelling units ^a	100	81	23.5	40	150.0

NOTE: Categories may not sum to total because of rounding.

^a Seasonally adjusted annual rates.

SOURCE: W.E. Upjohn Institute for Employment Research. Based on dwelling data from F.W. Dodge Division, McGraw-Hill Information Systems Company; and on employment data from the Michigan Department of Energy, Labor, and Economic Growth.

Niles–Benton Harbor MSA
Industry Employment Change by Place of Work, First Quarter to First Quarter
(not seasonally adjusted)

Industry	2012 Q1	2011 Q1	Percent change	Industry	2012 Q1	2011 Q1	Percent change
Goods-producing				Health care and social assistance	7,570	7,220	4.8
Primary metal manufacturing	1,000	940	6.4	Ambulatory health care services	2,320	2,240	3.6
Fabricated metal products mfg.	1,780	1,670	6.6	Arts, entertainment, and recreation	430	450	−4.4
Machinery manufacturing	1,620	1,530	5.9	Accommodation and food services	4,660	4,620	0.9
Transportation equipment mfg.	1,060	1,200	−11.7	Food services and drinking places	4,070	4,130	−1.5
Private service-providing				Government			
Professional and technical services	1,520	1,430	6.3	Federal government	320	340	−5.9
Administrative and support services	4,330	3,920	10.5	State government	370	350	5.7
Educational services	1,350	1,300	3.8	Local government	7,930	7,830	1.3

SOURCE: Michigan Department of Energy, Labor, and Economic Growth, QCEW/ES-202 data.

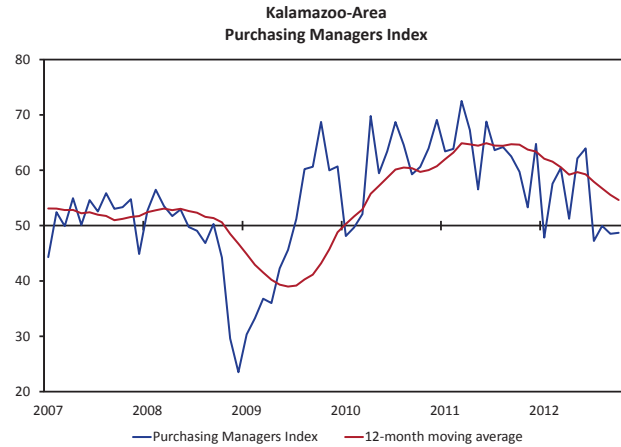
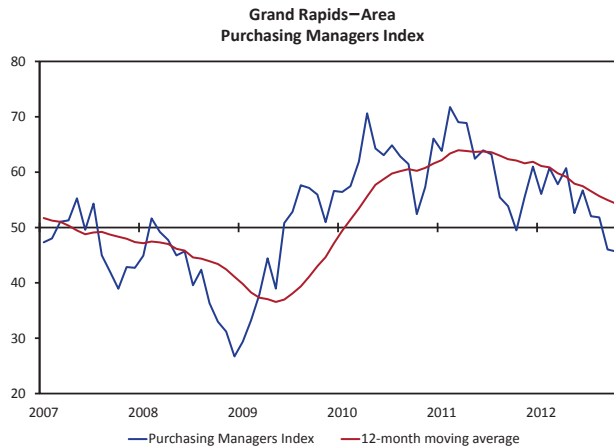
PURCHASING MANAGERS INDEX

“Flat again.” That is how Brian Long, director of Supply Chain Management Research at Grand Valley State University, summarized the findings of the latest survey of purchasing managers in the Grand Rapids and Kalamazoo areas. In both areas, he found that the auto parts suppliers are still positive. He did not report on conditions facing the other industries.

While sales and production were both reported higher in October, the overall Grand Rapids Purchasing Managers Index dipped below 50 in both October and September, the mark that divides a predominantly positive outlook from a

negative one. This suggests manufacturing may have lost some of the postrecession bounce the area had been enjoying.

In Kalamazoo, the index declined slightly, reaching 48.7 percent. October is the fourth straight month Kalamazoo has been below 50, meaning the outlook for area purchasing managers is hovering at slightly negative. Of the components that make up the index, only inventories grew from September to October; all other factors held steady or declined. While the Index has been extremely volatile, the 12-month moving average has been trending downward for more than a year.



MAJOR ECONOMIC DEVELOPMENTS

Battle Creek MSA

RSB Transmission announced that it will invest \$14.4 million and will add 100 new jobs to its Homer plant.

Borgess Health is constructing its Borgess Health Park, a new 65,000-square-foot, \$26.9 million ambulatory care facility that is scheduled to open in mid-2014.

Grand Rapids–Wyoming MSA

Autocam announced it will invest over \$50 million at its 14 production facilities around the world and will hire approximately 200 new workers in west Michigan.

Herbruck's Poultry Ranch in Ionia County is opening its new \$11 million feed production facility and has become the largest egg producer in Michigan, employing 400 workers.

1st Source Servall has opened its new 65,000-square-foot distribution center for heating and cooling and appliance parts.

Holland–Grand Haven MSA

Gentex announced another expansion, this one for \$45.6 million, which will create up to 100 new jobs during the next two years.

Magna announced plans to create another 177 jobs by 2016 at its Holland advanced glass manufacturing facility.

Challenge Manufacturing, another auto supplier, announced plans to add 40 more employees.

Haworth, a furniture manufacturer, announced plans to close its Douglas plant. It will move the plant's production

to other west Michigan facilities.

Hickory Springs Manufacturing, the parent company of Holland Wire Products, announced that it is moving Holland Wire Products to a plant near its headquarters in Hickory Springs, N.C., eliminating nearly 40 area workers.

Kalamazoo–Portage MSA

Mueller Copper Tube Products Company announced plans for a major \$26.5 million expansion that will create nearly 80 jobs.

In Three Rivers, American Axle announced that it plans to add 400 to 500 jobs in the next several years at its driveline plant.

Muskegon–Norton Shores MSA

Johnson Technology, a subsidiary of GE Aviation, announced plans for a \$301,000 expansion that will create 24 new jobs.

Forming Technologies LLC, a maker of heavy-gauge thermo-formed products primarily for the auto industry, announced plans to add 21 jobs to its existing 68-person workforce.

Niles–Benton Harbor MSA

Siemens Industry's Metallurgical Services Offline Maintenance (MSM) group is expanding and has added 10 workers to its existing staff of 60 workers.

New Products Corporation, which makes aluminum and zinc parts for customers in the automotive and medical industries, announced that it has added 15 employees.

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